



PRESS CONFERENCE ANNOUNCING HEARING ON EXECUTIVE COMPENSATION

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Good morning. First, I want to talk about the question of compensation in the financial industry, which you all know has become a continuing source of interest. We will be having a hearing a week from Friday on the 22nd. Votes are now scheduled for that day but whether there are votes or not we will have the hearing. The schedule has gotten kind of crunched because we have the Democratic conference tomorrow and Friday. Then we have Martin Luther King Day next Monday, so there are no votes until Tuesday night. And then the following week is the Republican conference on Thursday and Friday. The days are constrained so we are going to have a Friday hearing. I did not want to wait too long.

The question of compensation for people in the financial industry is a legitimate cause of concern in the country as a whole, and we are going to address it. We have taken some steps and part of what I am hoping is that we can focus some attention on this. The Senate, as you know, is now considering the financial regulatory reform bill, which includes the language we put in – both the say on pay and instructions to the regulators to prevent risk-based compensation or risk-inducing compensation. There are some issues that we need to raise. One is say on pay is limited to a fairly small number of officials at the top. With regard to the financial industry, I think it's time to look at whether there ought to be a broadening of the say on pay. Very large percentages of the revenue of some of these companies are going to compensation, and it does seem to me that the issue about whether or not the shareholder should be able to comment on that overall amount is relevant.

I also want to explore some of the arguments that we are now hearing against our acting. Companies have said that they had no option but to pay what seemed to be outsized forms of compensation for the social value that we are getting, or they will lose people to other companies. Well, that's an argument for us doing it by statute and regulation so there's uniformity. I also want to pursue further this argument they've made that if we get tough they will go to other countries. The head of JPMorgan Chase apparently about a month ago very angrily going through the newspapers told the Chancellor of the Exchequer in England that their investment in Canary Wharf was at risk because England was getting too tough. So I want to focus on this whole question. I think the argument that oh if you do this then we'll go elsewhere is greatly overblown. By the time they're through they are going to have to go to Mars to escape the determination to restrict.

There is an argument that says if you limit compensation too much you lose some of the best people. I don't know where people would go for comparable salaries. There may be in some of these financial institutions people capable of playing major league baseball. I'm not aware of any. But absent that, I don't know where they would go to get

comparable forms of compensation. I guess perhaps they could star in major motion pictures. But I don't know what else they could do.

Secondly, and this I want to take head on, if you do these restrictions you may get less of this activity. That's not a bad thing necessarily. Look, I think it's time for us to look at this whole question and we are not talking about restricting the amount of activity in general as a matter of fear. But if the financial industry tells us that the byproduct of things we want to do for good public policy reasons will restrict the amount of their activity, I want to look at the social impact of that. I think frankly there is an element in which the financial system – the function of which should be to be the means to the end of producing goods and services – has, to an unhealthy extent, gotten into activities that are ends in themselves. The whole function of which is to simply make money for the people who participate. People like Paul Volcker, George Soros and others have said that some of what they have innovated and engaged in doesn't do anything but make them richer and in fact puts the country somewhat at risk.

So I want to look at compensation a week from now in the broadest context. International competition – whether or not you are going to have people going to different industries; whether or not this is a restraint on some of what they do, if that is a bad thing. I continue to wonder what it is about the character of the people in that industry that says that if they are being paid large amounts of money they need to get extra bonuses. Although I will say that with regard to the proposals, and this is one of things we want to look at, if you focus on controlling compensation in a way that is too specific then you are inviting them simply to change the form of compensation.

Again, and I will differentiate two things. There is clearly an overwhelming public justification for the regulators restraining incentive or banning incentive structures that incentivize excessive risk. Now we've gotten that, and I want to help put some public attention on that. But the question of the amounts is also a relevant one. No one is talking about capping what they do, but I do think that we need to look at, as I said, maybe expanding say on pay.

And then the final thing is taxation at two levels, not obviously under the jurisdiction of this committee. One, I think this makes the case – you know one of the things the Republicans did when they came to power was to reduce the marginal tax rate on all these bonuses from 39 percent to 36 percent. When we talk about the marginal tax rate people want to understand that all these bonus recipients are among beneficiaries of that reduction of the marginal tax rate. I think we should be increasing the marginal tax rate at that level of income and that is significant.

Secondly, we have the Administration's proposal – we haven't seen the specifics – for some form of tax on the enterprises. And I think, by the way, that's the way to look at it. If you begin to tax bonuses or this or that then you get kind of moving the pieces on the checkerboard. But some form of taxing the entities, including, for example, some kind of tax on assets, I think you can make a very good case. I'd make the case that some of these institutions have just gotten too big. One of the arguments against tax on assets is it gives us an incentive not to be so big, well that's a good thing not a bad thing. But here's the argument and here's where compensation comes in – when the Administration talks about increasing the levies, they say oh you can't do that because then we won't have enough money to lend. Well why does that not apply to bonuses? Why does that not apply to the very large amounts of their revenue that they pay out on compensation? I mean if they are arguing that if you tax them they won't have enough revenue to lend that would seem to me to apply to these massive bonuses. And if you can in fact get

some of this work done for less than that's something that we ought to do. So that is the set of questions that we are going to be looking at.

I know we said that we would talk about the agenda. We haven't formalized that, and I'm going to have a caucus with the Democrats on the committee and we are going to talk about what other members have. There are some things that obviously carry over. Corporate governance; housing finance which includes the GSEs, the federal home loan banks, Fannie Mae, Freddie Mac. What the interrelationship of those should be with Ginnie Mae and the FHA that will be a subject that we will deal with. We have some affordable housing things. The Secretary has a proposal to replace Hope VI with Choice Neighborhoods and that one we need to legislate. The multi-development banks, the World Bank and the regional banks, are all up for capital increases so that is much of what the agenda will be. There will be some other things as well.

But I did want to announce specifically today that we will have a hearing a week from Friday on compensation. And obviously the basis, if we were satisfied with the way it looked we wouldn't be doing it. I think compensation has gotten excessive. We may not be able to deal with it; there are limits to what you can do publicly. But I want to explore what we can do further; I want to underline what we are already doing. Frankly, in the hope that maybe the Senate will be even more inclined to do this. Remember we passed the compensation reform earlier this year. They didn't act in the Senate. I'm hoping that the Senate will. I know that Senator Dodd has been in agreement with us on it. And we want to consider the broader implications. We want to talk about ways to deal with excessive compensation that are legitimate for the government's role. We will also then deal with the arguments against that. And the arguments against that is, well it's going to be bad for society, bad for the economy if you do those. I think it's time to have those arguments aired and that is what we will do.